

**NORTH UTAH VALLEY ANIMAL SERVICES
SPECIAL SERVICE DISTRICT**

**BASIC FINANCIAL STATEMENTS AND
ACCOUNTANTS' REVIEW REPORT**

JUNE 30, 2006

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ACCOUNTANTS' REVIEW REPORT

To the Administrative Control Board
North Utah Valley Animal Services
Special Service District
Lindon, Utah

We have reviewed the accompanying statement of net assets of North Utah Valley Animal Services Special Service District (the District) as of June 30, 2006 and the related statements of revenues, expenses, and changes in net assets and cash flows for the period from inception (October 1, 2005) through June 30, 2006, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the District.

A review consists principally of inquiries of District personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. The management's discussion and analysis on pages 2 through 4, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Osborne Robbins & Buhler PLLC

November 6, 2006

North Utah Valley Animal Services Special Service District
Management's Discussion and Analysis
June 30, 2006

(See Accountants' Review Report)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the period from inception (October 1, 2005) through June 30, 2006. Please read it in conjunction with the District's basic financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements.

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the District's net assets changed during the period presented. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The Statement of Cash Flows presents information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL HIGHLIGHTS AND ANALYSIS

The District's net assets increased by \$72,429 during the period ended June 30, 2006. This increase was due to lower than anticipated expenses in comparison to the participation fees charged. Participation fees are charged to cities within the District's boundaries based on animal intake statistics and totaled as follows during the period:

Orem	\$ 102,720
Lindon	15,080
Pleasant Grove	38,240
American Fork	24,440
Alpine/Highland	15,480
Lehi	40,040
Cedar Hills	1,480
Eagle Mountain, Saratoga Springs and Vineyard	360
	<hr/>
	\$236,360

North Utah Valley Animal Services Special Service District
Management's Discussion and Analysis
June 30, 2006

(See Accountants' Review Report)

Net Assets
June 30, 2006

Current assets	\$ 88,615
Capital assets	28,330
Total assets	<u>116,945</u>
Long-term obligations	30,162
Current liabilities	14,354
Total liabilities	<u>44,516</u>
Net assets:	
Restricted for capital projects	7,500
Unrestricted	64,929
Total net assets	<u>\$ 72,429</u>

Changes in Net Assets
For the period from Inception, October 1, 2005 through June 30, 2006

Operating revenues	
City participation fees	\$236,360
Animal sales and adoptions	27,935
Spay and neuter fees	14,295
Animal licenses	21,855
Miscellaneous	10,441
Total operating revenues	<u>310,866</u>
Nonoperating revenues	
Interest income	3,048
Total revenues	<u>313,934</u>
Operating expenses	
Administrative services	67,785
Animal services	171,114
Depreciation	2,606
Total operating expenses	<u>241,505</u>
Increase in net assets	<u>72,429</u>
Net assets at beginning of period	<u>-</u>
Net assets at end of period	<u>\$72,429</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, there was \$30,936 invested in equipment, furniture and fixtures. This amount was all related to the initial acquisition of the necessary equipment, furniture and fixtures to begin operations.

Debt

During the period ended June 30, 2006, the District entered into an agreement with Utah County whereby the County would advance the District \$30,000 for the purchase of equipment, furniture and fixtures

**North Utah Valley Animal Services Special Service District
Management's Discussion and Analysis
June 30, 2006**

(See Accountants' Review Report)

necessary to begin operations. The advance is to be repaid five years from the commencement of the agreement. As of June 30, 2006, the entire \$30,000 was still outstanding.

As of June 30, 2006 the Center had long-term obligations outstanding related to compensated absences due to employees totaling \$4,647

The District is restricted from issuing bonds or securing other types of debt under the terms of its organizing documents. It therefore has no bond rating.

ECONOMIC FACTORS AND NEXT YEAR'S OPERATIONS

- The District will continue to set budget levels based on estimated costs, which will determine the total fee to be charged to each of the participating cities and unincorporated Utah County. The participating cities and county will then split the total fee based on prior year usage.
- The shelter will hire two additional full time employees during the 2006-2007 year. This will facilitate the stabilization of staff at the shelter, extended Saturday hours, and create the opportunity to provide educational programs to the public.

CONTACTING THE DISTRICT'S FINANCIAL MANGEMENT

This report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District at 193 North 2000 West, Lindon, UT 84042.

BASIC FINANCIAL STATEMENTS

North Utah Valley Animal Services Special Service District
Statement of Net Assets
June 30, 2006

(See Accountants' Review Report)

ASSETS

Current assets

Cash and cash equivalents	\$ 81,115
Restricted cash and cash equivalents	7,500
Total current assets	<u>88,615</u>

Noncurrent assets

Depreciable capital assets, net of accumulated depreciation	28,330
Total assets	<u>\$ 116,945</u>

LIABILITIES

Current liabilities

Accounts payable	\$ 3,241
Accrued liabilities	6,628
Current portion, compensated absences	3,485
Current portion, payable to other governments	1,000
Total current liabilities	<u>14,354</u>

Noncurrent liabilities

Compensated absences	1,162
Payable to other governments	29,000
Total noncurrent liabilities	<u>30,162</u>
Total liabilities	<u>44,516</u>

NET ASSETS

Restricted for capital projects	7,500
Unrestricted	64,929
Total net assets	<u>72,429</u>
Total liabilities and net assets	<u>\$ 116,945</u>

The accompanying notes are an integral part of this statement.

North Utah Valley Animal Services Special Service District
Statements of Revenues, Expenses and Changes in Net Assets
For the period from inception (October 1, 2005) through June 30, 2006

(See Accountants' Review Report)

Operating revenues	
Charges for services	
City participation fees	\$ 236,360
Animal sales and adoptions	27,935
Spay and neuter fees	14,295
Animal licenses	21,855
Miscellaneous	10,441
Total operating revenues	<u>310,886</u>
Operating expenses	
Administrative services	67,785
Animal services	171,114
Depreciation	2,606
Total operating expenses	<u>241,505</u>
Operating income	<u>69,381</u>
Nonoperating revenues	
Interest income	<u>3,048</u>
Total nonoperating revenues	<u>3,048</u>
Increase in net assets	<u>72,429</u>
Net assets at beginning of period	<u>-</u>
Net assets at end of period	<u><u>\$ 72,429</u></u>

The accompanying notes are an integral part of this statement.

North Utah Valley Animal Services Special Service District
Statement of Cash Flows
For the period from inception (October 1, 2005) through June 30, 2006

(See Accountants' Review Report)

Cash flows from operating activities	
Receipt of city participation fees	\$ 236,360
Animal services fees received	64,085
Payments to suppliers	(136,904)
Payments to employees	(87,479)
Other receipts	10,441
Net cash provided by operating activities	<u>88,503</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(30,936)
Proceeds from intergovernmental payable	30,000
Net cash used by capital and related financing activities	<u>(936)</u>
Cash flows from investing activities	
Interest income collected	<u>3,048</u>
Net increase in cash and cash equivalents	88,615
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ 88,615</u></u>
Cash and cash equivalents consists of:	
Unrestricted cash and cash equivalents	\$ 81,115
Restricted cash and cash equivalents	7,500
	<u><u>\$ 88,615</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 69,381
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	2,606
Changes in assets and liabilities	
Accounts payable	3,241
Accrued liabilities	11,275
Net cash provided by operating activities	<u><u>\$ 88,503</u></u>

See accompanying notes to the basic financial statements.

North Utah Valley Animal Services Special Service District
Notes to the Basic Financial Statements
June 30, 2006

(See Accountant's Review Report)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

North Utah Valley Animal Services Special Service District (the District) was established in 2004 under the laws of the State of Utah by resolution of the Board of County Commissioners of Utah County, Utah (the County). The District operates under the direction of an appointed Administrative Control Board which consists of three members appointed by the County and a member appointed by each city included within the boundaries of the District. The District was created for the purpose of providing animal shelter and related services within northern Utah County as well as animal licensing services to those unincorporated areas within northern Utah County.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

Reporting entity

The District's basic financial statements include the financial position and results of operations of the District. A review of other units of local government, using the criteria set forth in generally accepted accounting principles, indicates there are no additional entities or funds for which the District has reporting responsibilities. Management has determined the District should not be considered a component unit of the County because the County does not impose will or have a financial benefit, burden or dependency relationship with the District.

Basic Financial Statements and Basis of Accounting

The District is an enterprise fund and categorized as a business-type activity, where the intent is that costs of providing goods or services to the member entities on a continuing basis be financed or recovered primarily through charges to cities within its boundaries and charges for animal licenses, sales and adoptions as well as spay and neuter fees.

The District's financial statements are presented on the full accrual, economic resource basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recognized when earned and expenses are recognized when incurred.

North Utah Valley Animal Services Special Service District
Notes to the Basic Financial Statements
June 30, 2006

(See Accountant's Review Report)

NOTE A – SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expense not related to capital and related financing, or investing activities. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets, if any; and unrestricted net assets.

Cash and cash equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an original maturity date of less than 90 days.

Capital assets and depreciation

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. The District records its capital assets at cost. Contributed capital assets are valued at their estimated fair market value on the date of contribution. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Maintenance and repairs are charged to current period operating expenses, whereas additions and improvements are capitalized.

Depreciation of property and equipment has been provided using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Equipment, furniture and fixtures	5 – 7

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS

The District's cash is deposited into one account with the City of Orem, Utah. The pooled deposits and investments are governed by the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The Money Management Act requires deposits be in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the

North Utah Valley Animal Services Special Service District
Notes to the Basic Financial Statements
June 30, 2006

(See Accountant's Review Report)

NOTE B – DEPOSITS AND INVESTMENTS - CONTINUED

requirements of the Act and adhering to the rules of the Utah Money Management Council. Deposits in excess of the insured amounts are uninsured and uncollateralized. Deposits are not required to be collateralized by state statute.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of investment securities.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rate "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

The City of Orem's policy for managing interest rate risk is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City of Orem follows the Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk.

North Utah Valley Animal Services Special Service District
Notes to the Basic Financial Statements
June 30, 2006

(See Accountant's Review Report)

NOTE B – DEPOSITS AND INVESTMENTS – CONTINUED

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the City of Orem will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The City of Orem does not have a formal policy for custodial credit risk.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer.

The City of Orem's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the portfolio. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies.

Due to their pooled nature, the deposits and investments of the District cannot be identified or classified according to GASB Statement No. 40, Deposit and Investment Risk Disclosures, on a separate basis. However, the entire pool of the City of Orem was comprised of amounts held with the Utah Public Treasurer's Investment Fund and U.S. Treasuries.

The Utah State Treasurer's Office operates the Utah Public Treasurer's Investment Fund (PTIF) which is invested in accordance with the State Money Management Act. The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. Deposits with the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

NOTE C – RESTRICTED CASH AND CASH EQUIVALENTS

At June 30, 2006, all of the District's restricted cash and cash equivalents consist of funds required, under the Center's lease for its facilities, to be set aside for purposes of accumulating and maintaining an equipment reserve fund to be used for the replacement of building components and equipment in the facilities at the end of their serviceable lives. The equipment reserve fund is required to total \$50,000 within five years from the commencement of the lease and increase by \$50,000 every five years thereafter until it totals \$200,000.

North Utah Valley Animal Services Special Service District
Notes to the Basic Financial Statements
June 30, 2006

(See Accountant's Review Report)

NOTE D – CAPITAL ASSETS

Capital asset activity is summarized as follows:

	Inception (October 31, 2005)	Increases	Decreases	June 30, 2006
Depreciable capital assets:				
Equipment, furniture and fixtures	\$ -	\$30,936	\$ -	\$30,936
Less accumulated depreciation:				
Equipment, furniture and fixtures	-	2,606	-	2,606
Depreciable capital assets, net of accumulated depreciation	\$ -	\$28,330	\$ -	\$28,330

Utah County provides office space and shelter facilities for the use of the District. For the use of these facilities, the District pays rent in the amount of \$1 per year and the arrangement expires in 2035.

NOTE E – LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations:

	July 1, 2005	Additions	Deletions	June 30, 2006	Amounts Due Within One Year
Payable to other governments	\$ -	\$30,000	\$ -	\$30,000	\$1,000
Compensated absences	-	4,647	-	4,647	3,485
	\$ -	\$34,647	\$ -	\$34,647	\$4,485

Payable to other governments consists of an amount due to Utah County under the terms of the lease on the District's facilities (see Note C). The amount was advanced to the District by the County for the purchase of equipment, furniture and fixtures. It is to be repaid five years from the commencement of the lease, less any amounts credited to the County for animal shelter charges incurred by the County for the unincorporated area of Utah County within the District's boundaries.

Full-time, regular employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the District. Employees can also earn compensatory time for hours worked in excess of normal full-time hours. Accumulated unpaid amounts are accrued when benefits vest to employees and the unpaid liability is reflected as compensated absences payable.

North Utah Valley Animal Services Special Service District
Notes to the Basic Financial Statements
June 30, 2006

(See Accountant's Review Report)

NOTE F - RETIREMENT PLANS

Plan Description - The District contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy - Plan members are required to contribute a percent of their covered salary (all or part may be paid by the employer) to the respective systems to which they belong. At June 30, 2006, in the Local Governmental Noncontributory Retirement System, the District is required to contribute 11.09% of employees' annual covered salary. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District contributions to the Local Governmental Noncontributory Retirement System for the period ended June 30, 2006, was \$4,004. The contributions were equal to the required contributions for the period.

NOTE L - DEFERRED COMPENSATION PLANS

The District offers its employees participation in a 457 deferred compensation plan which was created (with the City of Orem) in 1981 as a Social Security replacement program for the employees of the City of Orem. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The assets associated with this plan are not included in the basic financial statements, as they are not legal assets of the District.

Under this plan, participants defer a percentage of their compensation up to 3.0%. The District matches the amount deferred by the participants, not to exceed the legal limit. The payroll covered by the deferred compensation for the year ended June 30, 2006 was \$77,479. The District's expense for this plan for the year ended June 30, 2006 was \$2,710.

North Utah Valley Animal Services Special Service District
Notes to the Basic Financial Statements
June 30, 2006

(See Accountant's Review Report)

NOTE L – DEFERRED COMPENSATION PLANS – CONTINUED

Under the Utah State Retirement Systems Plan, the District participates in a 401(k) plan which is a multiple employer defined contribution plan. All employees of the District are eligible to participate in the plan. The employee is 100 percent vested immediately upon contribution to the plan. The employer contributes 3% of the employee's eligible salary for retirement benefits and the employee contribution is voluntary.

In 2006, the Center made contributions to the plan totaling \$2,459.

NOTE M - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all of these risks of loss, except natural disasters other than earthquakes. During 2006, the District did not decrease any levels of insurance coverage. Settlement amounts have not exceeded insurance coverage for the current period.

Expenses and claims not covered by insurance are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Claims information for the period ended June 30, 2006 is as follows:

Claims liability at inception,	\$	-
Claims incurred during the period and changes in estimates		-
Payments on claims during the period		-
Payments made by insurance		-
Payments made by the District		-
Claims liability June 30, 2006	\$	-